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Weapons Windfall

Arms Sales to Egypt Yielded Huge Profits For Obscure New Firm

A Shipping Company Set Up By Egyptian, Ex-Agent Of CIA Is Being Probed

Pentagon Bends Some Rules

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WASHINGTON—In the spring of 1979, President Jimmy Carter and Egyptian President Anwar Sadat were basking in the glow of the historic peace treaty between Egypt and Israel.

A few months later, away from the limelight, another American and another Egyptian were fashioning a different kind of agreement. They were entrepreneurs with government connections, and they were looking to make money on the treaty—lots of it. Egypt's willingness to make peace had won for it a promise of billions of dollars in U.S. military aid to purchase jets, tanks, missiles and other arms. And someone would be hired to ship these weapons.

As it turned out, that someone was the Egyptian American Transport & Services Corp., or Eatsco, an unknown company set up in August 1979 by the two men, Hussein K. Salem, a mysterious Egyptian businessman, and Thomas G. Clines, an American fresh out of the Central Intelligence Agency.

By November, Egypt's defense ministry and the U.S. Defense Department had both approved paying Eatsco to be the agent for the huge arms shipments, despite nagging worries at the Pentagon that the fledgling company was unqualified.

Payments Begin

In December, the U.S. Treasury, on Pentagon orders, began a series of payments to Eatsco that, by last month, totaled \$71.4 million. The money came from generous U.S. government loans to Egypt that needn't be repaid for decades, if at all.

Now the new company's quick success is being questioned. For months, the Justice department has been investigating Eatsco's affairs. A grand jury in Alexandria, Va., is studying how the untried, hastily formed concern won Pentagon approval and whether its billing procedures were proper.

Whatever the legal findings, the history of Eatsco raises difficult questions about the manner in which U.S. arms sales credits are spent, how the Pentagon monitors that spending and how defense officials deal with foreign allies anxious for money and arms. Defense officials questioned about the Eatsco matter concede that the Pentagon's Defense Security Assistance Agency, the office responsible for arms sales, hasn't any auditing force to check on the billions of dollars in loans it doles out to foreign armies.

The company's smooth sailing at the Pentagon was possible only because defense officials decided to swallow their own doubts and to bend Pentagon rules, according to officials there. Mr. Salem had the blessings of the Egyptian government, and the U.S. was anxious to please President Sadat.

Pentagon Policy

Thus, Egypt was allowed to hand over some of its U.S. loan funds to Eatsco even though Pentagon policy normally bars using such funds to cover shipping. And Eatsco's approval came only a few months after the Pentagon rebuffed an earlier bid by Egypt to have Mr. Salem handle the arms shipments.

Late last year, the Pentagon says, "the Maritime Administration raised suspicions that Eatsco may have overcharged" for certain portions of the arms shipments, even though its fees overall were competitive. A subsequent review by Pentagon aides identified several million dollars in charges listed on selected Eatsco invoices that couldn't be explained by comparing them with bills Eatsco received from shipping lines. The Pentagon never determined whether the differences amounted to improprieties. But the Federal Bureau of Investigation is poring over Eatsco and Pentagon records to try to find out.

Prosecutors are also investigating Eatsco's ties, if any, to Edwin P. Wilson, a former CIA agent currently in jail awaiting trial on charges of aiding terrorists in Libya and conspiring to kill a Libyan dissident. In January 1979, Mr. Wilson arranged a \$500,000 loan for his friend, Mr. Clines. The money was funneled through Bermuda and some of it went to a company later used by Mr. Clines to buy into Eatsco, according to a source close to Mr. Clines.

The prosecutors are studying the conduct of two top Pentagon officials—Air Force Maj. Gen. Richard V. Secord and arms sales chief Erich F. von Marbod, now retired—who helped oversee the Egyptian sales. Mr. Wilson and Mr. Clines knew both officials. Gen. Secord was involved in a 1978 real-estate transaction with Mr. Clines and Mr. Wilson and was given the use of Mr. Wilson's plane in 1978 and 1979.

Ties to Ex-CIA Men

Investigators want to know if the defense officials' government actions relating to Egypt or other matters were influenced by their ties to the former CIA men. Of particular interest is a London dinner attended by Mr. von Marbod, Gen. Secord and Mr. Wilson in January 1979—around the time that Mr. Wilson arranged the loan for Mr. Clines.

The grand jury is trying to determine if federal fraud, conspiracy or other laws were broken in the Eatsco matter. But no such charges have been leveled and Eatsco continues to handle the arms shipments, which the Pentagon says have gone generally well. However, the Pentagon says, it stopped paying Eatsco for a time early this year and no longer makes multimillion-dollar advance payments to the company.

Gen. Secord, who advises Defense Secretary Caspar Weinberger on Middle East arms-sales policy, was suspended for three months this year after the Pentagon learned of his ties to Mr. Wilson, according to a Pentagon official. He was reinstated after he agreed to a lie-detector test of his assertions of innocence. (The test was never given.) Mr. von Marbod, 53, retired last December, citing health reasons.

Lawyers for all the men and companies under study insist their clients are innocent of any wrongdoing, and some charge that close associates of Mr. Wilson are feeding the prosecutors false information that might help dig him out of his deep legal hole. They also contend that some of Eatsco's competitors are spreading innuendoes. (The chief prosecutor, Theodore S. Greenberg, won't comment on the case.)

The case is so sensitive, because of the potential for damage to U.S.-Egyptian relations, that it is being personally overseen by high Justice Department officials, one of whom traveled to Egypt recently. The U.S. has taken pains to avoid angering or embarrassing Cairo and to seek its cooperation.

Many questions remain unanswered; the Justice Department may be unable to answer them all either. For instance, defense officials still can't say why Mr. Salem was picked by Egypt to ship the arms, and Justice Department sources hasten to say that prosecutors haven't any evidence that Egyptian officials were improperly influenced by him.